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OPEN MEETING ITEM



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ARIZONA CORPORATION COMMISSION

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DOCKET NO.: T-01923A-13-0428

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TO ALL PARTIES:

ORIGINAL

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Opinion and Order on:

SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

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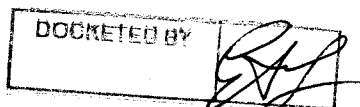
The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

OCTOBER 16, 2014

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED

SEP 29 2014



Jodi A. Jerich
JODI JERICH
EXECUTIVE DIRECTOR

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 BOB STUMP - Chairman
4 GARY PIERCE
5 BRENDA BURNS
6 BOB BURNS
7 SUSAN BITTER SMITH

8 IN THE MATTER OF THE APPLICATION OF
9 SOUTH CENTRAL UTAH TELEPHONE
10 ASSOCIATION, INC. A UTAH NON-PROFIT
11 CORPORATION, FOR A HEARING TO
12 DETERMINE THE EARNINGS OF THE
COMPANY, THE FAIR VALUE OF THE
COMPANY FOR RATEMAKING PURPOSES,
AND TO INCREASE RESIDENTIAL RATES AS
NECESSARY TO COMPENSATE FOR THE RATE
IMPACTS OF THE FCC'S USF/ICC
TRANSFORMATION ORDER.

DOCKET NO. T-01923A-13-0428

DECISION NO. _____

OPINION AND ORDER

13 DATE OF HEARING: March 25, 2014
14 PLACE OF HEARING: Phoenix, Arizona
15 ADMINISTRATIVE LAW JUDGE: Jane Rodda
16 APPEARANCES: Mr. Craig A. Marks, CRAIG A. MARKS, PLC,
17 on behalf of Applicant; and
18 Ms. Maureen A. Scott, Senior Staff Counsel and
19 Mr. Charles O. Hains, Staff Attorney, Legal
20 Division on behalf of the Utilities Division of the
21 Arizona Corporation Commission.

20 **BY THE COMMISSION:**

21 * * * * * * * * *

22 Having considered the entire record herein and being fully advised in the premises, the
23 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

24 **FINDINGS OF FACT**

25 **Procedural History**

26 1. On December 9, 2013, South Central Utah Telephone Association, Inc. ("SCU" or
27 "Cooperative") filed with the Commission pursuant to A.R.S. §40-250 and Arizona Administrative
28

1 Code ("A.A.C.") R14-2-103 for an increase in its residential rates in order to compensate for the rate
 2 impacts of the Federal Communication Commission's ("FCC") November 18, 2011, *USF/ICC*
 3 *Order*.¹ In its Application SCU requested that the Commission approve a basic residential local
 4 exchange rate of the lower of \$19.00, or the floor rate to be set by the FCC. SCU requested that the
 5 new rates go into effect by June 1, 2014 in order to avoid the loss of federal funding for high-cost
 6 loop support.²

7 2. On December 17, 2013, SCU filed a Time Clock Waiver in order to allow additional
 8 time for the Commission to determine procedures for processing the Application.

9 3. In a Special Open Meeting on January 14, 2014, the Commission agreed to adopt a
 10 proposal by the Commission's Utilities Division ("Staff") that would not require SCU to file all of
 11 the schedules normally required under A.A.C. R14-2-103 for rate applications because of the short
 12 time frame when new rates must be in effect under the FCC directive.³

13 4. By Procedural Order dated January 15, 2014, a Procedural Conference was held on
 14 January 22, 2014, to discuss the timing of the hearing in this matter and other procedural matters.
 15 SCU and Staff appeared through counsel and agreed on a process to govern this matter.

16 5. By Procedural Order dated January 23, 2014, the matter was set for hearing on March
 17 25, 2014, and other procedural guidelines established.

18 6. On January 29, 2014, SCU docketed a "Supplemental Filing" that included a schedule
 19 showing the effect on the Cooperative's rate of return if the FCC's Wireline Competition Bureau set
 20 \$17.50 as the monthly residential rate floor to be in effect as of June 1, 2014.⁴

21 ¹ FCC 11-161, Connect America Fund, WC Docket No. 10-90 et al., *Report and Order and Further Notice of Proposed*
 22 *Rulemaking*, 26 FCC Rcd 17663 (November 18, 2001) ("*USF/ICC Order*").

23 ² Six rural Arizona incumbent local exchange carriers ("ILECs") filed similar rate case applications around the same time
 24 period in order to comply with the FCC's *USF/ICC Order*. All six were represented by the same legal counsel and several
 25 of the carriers have common ownership. Although separate hearings were held for each entity, the proceedings were
 26 coordinated to promote efficiency. The dockets are: Docket No. T-02063A-13-0411 (Arizona Telephone Company);
 27 Docket No. T-01072A-13-0412 (Southwestern Telephone Company); Docket No. T-01923A-13-0428 (South Central
 28 Utah Telephone Association, Inc.); Docket No. T-02724A-13-0416 (Table Top Telephone Company, Inc.); Docket No.
 T-01847A-13-0457 (Valley Telephone Cooperative, Inc.); and Docket No. T-02727A-13-0458 (Copper Valley
 Telephone, Inc.). Arizona Telephone Company and Southwestern Telephone Company have the same parent company,
 and Valley Telephone Cooperative, Inc. owns Copper Valley Telephone, Inc.

³ The streamlined filing, as recommended by Staff, included schedules showing: adjusted test year results; adjustments;
 year 2 *USF/ICC Order* impacts; rate base; working capital; and rate design.

⁴ SCU made the filing at Staff's request. At that time, the rural ILECs believed that \$17.50 was a likely target for the
 FCC's new benchmark.

1 7. On March 10, 2014, SCU filed an Affidavit of Customer Notice indicating that public
2 notice of the hearing in this matter was mailed to its customers on February 12, 2014.

3 8. On March 14, 2014, Staff filed a Request for Suspension of the Procedural Schedule
4 on the grounds that the FCC's Wireline Competition Bureau had not yet determined the rate floor for
5 June 1, 2014, which resulted in uncertainty about the level of the rate floor and the implementation
6 date. In its filing, Staff included information that on March 11, 2014, the Eastern Rural Telecom
7 Association ("ERTA"), the Independent Telephone & Telecommunications Alliance ("ITTA"),
8 NTCA – The Rural Broadband Association ("NTCA"), the National Exchange Carrier Association
9 ("NECA"), the United States Telecom Association ("US Telecom"), and WTA-Advocates for Rural
10 Broadband ("WTA") (collectively the "Associations") filed a request with the FCC asking that the
11 effective reporting date for the as yet unannounced 2014 local service floor be extended from July 1,
12 2014, to January 2, 2015.⁵ Staff believed that the FCC would likely seek comment on the
13 Associations' request before it made any determination on the rate floor and whether to extend the
14 date for compliance. Because of these developments, Staff did not believe that it would be
15 productive to proceed with the hearing, and requested a temporary suspension of the procedural
16 schedule until the FCC set both the local service rate floor and gave guidance to carriers and the
17 states on how to proceed, or the FCC ruled on the Associations' request for extension of time.

18 9. On March 17, 2014, SCU filed a Response to the Staff Request. Because the effect of
19 the pending motion by the Associations before the FCC was unknown, SCU could support Staff's
20 request only with the understanding that if the FCC required compliance with a new benchmark by
21 June 1, 2014, or shortly thereafter, that Staff and the Hearing Division would work with the
22 Cooperative to resume the hearings as expeditiously as necessary so as to avoid any potential loss of
23 federal funds.

24 10. By Procedural Order dated March 18, 2014, Staff's Request was denied in order to
25 provide the Commission with sufficient time to act on the Application if the FCC did not extend the
26 June 1, 2014, implementation date. Staff was directed to file its Staff Report by March 20, 2014.⁶

27 _____
28 ⁵ On July 1, carriers report the rates in effect on June 1.

⁶ The original Rate Case Procedural Order had set March 14, 2014, as the date to file the Staff Report.

1 11. On March 20, 2014, Staff filed a Request for an Extension of Time to File Its Staff
2 Report until March 21, 2014. Staff's request was granted by Procedural Order dated March 21, 2014.

3 12. On March 21, 2014, Staff filed its Staff Report, recommending approval of SCU's
4 request to increase its residential local exchange service rate from \$14.00 to the lower of \$19.00 or
5 the 2014 local service rate floor established by the FCC. Staff further recommended that the rate
6 increase become effective on the rate floor compliance date as determined by the FCC.

7 13. On March 21, 2014, SCU filed Notice of New FCC Rate Floor. The Cooperative
8 attached a copy of the FCC Public Notice DA14-384 dated March 20, 2014, in which the FCC
9 announced a rate floor of \$20.46. The FCC did not extend the June 1, 2014, compliance date but
10 asked for comments on the Associations' petition to extend the compliance date.

11 14. The hearing convened as scheduled on March 25, 2014, before a duly authorized
12 Administrative Law Judge, at the Commission's offices in Phoenix, Arizona. SCU and Staff appeared
13 through counsel; Michael East, President and Chief Executive Officer, testified for SCU; and Pamela
14 Genung, Executive Consultant II for the Utilities Division, testified on behalf of Staff. No members
15 of the public filed comments or appeared at the hearing to make public comment.

16 15. On March 31, 2014, SCU filed Post-hearing Exhibits, consisting of pro forma results
17 of operations under two different rate scenarios, and a bill impact schedule.

18 16. By Procedural Order dated April 16, 2014, SCU was requested to supplement the
19 record with data on the amount of federal high cost loop support ("FHCLS") received in the test year.

20 17. On April 23, 2014, the FCC met in open meeting and adopted a *Seventh Order on*
21 *Reconsideration of its USF/ICC Order.*⁷ Statements made during the open meeting indicated that the
22 FCC was going to adopt a lower rate floor than previously announced, waive that portion of its rules
23 that would have required the new rate floor go into effect on June 1, 2014, and phase-in the rates over
24 a number of years. The FCC's open meeting discussion did not provide the specifics of its decision.

25 18. On April 28, 2014 and May 7, 2014, SCU and Staff participated in two telephonic
26 procedural conferences to discuss the implications of the FCC's actions and whether the Commission

27 ⁷ *Report and Order, Declaratory Ruling, Order, Memorandum and Order, Seventh Order on Reconsideration, and*
28 *Further Notice of Proposed Rulemaking*, WC Docket No. 10-90, WT Docket No. 10-208, WT Docket No. 14-58, WC
Docket No. 07-135, CC Docket No. 01-92 ("*Seventh Reconsideration Order*").

1 needed to approve new rates by June 1, 2014, in order to preserve the current levels of FHCLS. The
2 Order adopted at the FCC's April 23, 2014 Open Meeting had not yet been released, and no party to
3 this proceeding was certain of its specific provisions. Staff recommended delaying Commission
4 action on the rate application until the FCC's actions were known. However, without knowing the
5 details of the forthcoming order, SCU was reluctant to risk not having new rates in place by June 1,
6 2014. On or about May 8, 2014, based on additional information received about the FCC's actions,
7 SCU agreed that the Commission could delay taking action on its rate application until the FCC's
8 Order was released.

9 19. The FCC's *Seventh Reconsideration Order* was released on June 10, 2014. This Order
10 grants a waiver of the provision that would cut FHCLS for carriers if their local residential rates are
11 \$14.00 or higher as of June 1, 2014. In addition, it establishes a phase-in of the floor rate that calls
12 for residential local exchange rates to be at or above \$16.00 by December 1, 2014, at or above \$18.00
13 by June 1, 2016, and at or above \$20.00 by June 1, 2017, in order to preserve current levels of
14 FHCLS.⁸

15 20. By Procedural Order dated July 1, 2014, the parties were directed to provide revised
16 substantive and procedural recommendations given the FCC's *Seventh Reconsideration Order*.

17 21. On July 31, 2014, SCU and Staff each filed Responses to the July 1, 2014, Procedural
18 Order.

19 22. SCU recommended that the Commission authorize it to increase its residential rates to
20 \$16.00 effective December 1, 2014; to the lower of \$18.00 or the new national benchmark effective
21 June 1, 2016; and to the lower of \$20.00 or any new national benchmark by June 1, 2017, without re-
22 opening the hearing or requiring a new hearing. SCU believed that because the notice sent to
23 residential customers concerning its rate request stated that it was requesting new rates up to the
24 lower of \$19.00 or the FCC's approved residential rate floor and also provided that the final rates
25 approved by the Commission may be higher or lower than the rates requested by the Cooperative,
26 that no additional notice is required prior to Commission action on the Application. SCU
27

28 ⁸ *Seventh Reconsideration Order* at ¶ 80.

1 recommended that it be required to provide notice of each rate increase before it is implemented.

2 23. Staff recommended that the Commission adopt the following residential access line
3 rates and implementation schedule: (a) \$16.00 effective December 1, 2014; (b) \$18.00 or the 2016
4 rate floor set by the FCC, whichever is lower, effective June 1, 2016; and (c) \$20.00, or the 2017 rate
5 floor set by the FCC, whichever is lower, on June 1, 2017. Staff believed that because the hearing in
6 this matter discussed various options that the FCC might take, there is sufficient evidence in the
7 record to establish that the proposed final rate of \$20.00 and the various step increases are just and
8 reasonable. Staff believes that because the matter has been noticed to residential customers for a rate
9 up to \$19.00, that within 30 days of the effective date of any Order in this matter, the Cooperative
10 should be required to re-notice customers informing them of the new rate floor of \$20.00 to be
11 implemented in 2017, and also include the various step increases provided in the FCC's *Seventh*
12 *Reconsideration Order* and their effective dates.⁹ In addition, Staff recommends that before each of
13 the rate phase-ins, the Cooperative should send another notice to customers at least 30 days prior to
14 the effective date of the increase in rates. Finally, Staff recommends that the Cooperative be required
15 to file a full rate case for any future rate increases beyond the \$20.00 floor.

16 24. By Procedural Order dated August 7, 2014, the parties were requested to provide
17 additional information about their positions.

18 25. On August 22, 2014, SCU filed a Response to the August 7, 2014 Procedural Order,
19 attaching updated schedules reflecting the effect of the FCC's revised directive for the phase-in of
20 local service rates.

21 26. On August 29, 2014, Staff filed its Response to the August 7, 2014 Procedural Order,
22 addressing the reasonableness of the proposed rate phase-in schedule.

23 27. On September 22, 2014, SCU filed a Supplemental Response to Procedural Order
24 which provided additional information about the projected level of FHCLS going forward.

25 ...

26 ...

27 ⁹ Staff recommended that the notice should also explain that if the new FCC surveys in 2016 and 2017 result in rate floors
28 that are lower than the step increases contained in the FCC's *Seventh Reconsideration Order*, the step increases will also
be lower.

1 **Background**

2 28. SCU is a non-profit member owned cooperative that provides telephone utility service
3 to the public in Arizona and Utah. The Cooperative has two Arizona exchanges—Colorado City and
4 Fredonia.¹⁰ At the end of the test year, September 30, 2013 (“test year”), SCU had approximately
5 654 residential lines in Arizona.¹¹

6 29. SCU’s current rates were authorized in Decision No. 74205 (December 30, 2013). In
7 that Decision, the Commission authorized SCU to increase its Colorado City residential local
8 exchange service rate from \$11.00 to \$14.00, and its Fredonia residential local exchange rate from
9 \$13.28 to \$14.00, in order to comply with the FCC’s *USF/ICC Order*.¹²

10 30. Staff confirmed that SCU is in compliance with Commission Orders.¹³

11 31. SCU is a rate-of-return ILEC eligible to receive FHCLS.

12 32. On November 18, 2011, the FCC issued the *USF/ICC Order*, which provides for a
13 transition away from then-existing federal universal service programs and most intercarrier
14 compensation systems to a new Connect America Fund (“CAF”). In its *USF/ICC Order*, the FCC
15 provided that by July 1, 2020, intercarrier compensation rates for rate of return companies would be
16 reduced to zero. The CAF provides revenues to carriers as a means to help the transition from access
17 charges and/or reciprocal compensation. Recovery from the CAF will phase out over time at 5
18 percent annually. In addition to CAF revenues, the *USF/ICC Order* allows ILECs to implement an
19 Access Recovery Charge (“ARC”) on the residential end user’s bill. In the first year, starting July 1,
20 2012, ILECs could impose an ARC in the amount of \$0.50 per residential line; in the second year
21 (July 1, 2013 to June 30, 2014) the ARC could increase to \$1.00 per residential line; and in year
22 three, the ARC could increase to \$1.50, up to a maximum ARC of \$3.00 in year six.

23 33. The *USF/ICC Order* also adds new rules that reduce FHCLS to carriers by the amount
24 that their flat-rate residential local service rates fall below a specified local service rate floor. The rate

25
26 ¹⁰ Hearing Transcript (“Tr.”) at 24. The Cooperative has many more customers in Utah than in Arizona, with about 10,000 total customers.

27 ¹¹ Ex A-1.

28 ¹² The rates in effect prior to Decision No. 74205 were approved in Decision No. 56744 (December 20, 1989) in which the Commission authorized a 6.42 percent rate of return on FVRB.

¹³ Ex S-1 Staff Report at 2.

1 floor is intended “to ensure that states are contributing to support and advance universal service and
 2 that consumers are not contributing to the Fund to support customers whose rates are below a
 3 reasonable level.”¹⁴ The rate floor includes state subscriber line charges, state universal service fees,
 4 and mandatory extended area service charges, if any. The *USF/ICC Order* established the rate floor at
 5 \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC’s Wireline
 6 Competition Bureau.

7 34. Under the *USF/ICC Order*, in order to continue receiving FHCLS as 2014 levels, SCU
 8 must increase its residential local rates to the FCC-mandated residential rate floors. Otherwise, the
 9 amount of FHCLS received will be reduced dollar-for-dollar for each customer by the difference
 10 between the existing local rate and the new rate floor. Pursuant to the FCC’s *Seventh Reconsideration*
 11 *Order*, in order to preserve current FHCLS revenue levels, SCU must increase its residential local
 12 exchange rate to \$16.00 by December 1, 2014, to \$18.00 by June 1, 2016, and to \$20.00 by June 1,
 13 2017.¹⁵

14 Rate Request

15 35. SCU requests that it be authorized to raise its residential local exchange rates from
 16 \$14.00 to \$16.00 effective December 1, 2014, and thereafter to increase its residential local exchange
 17 rate to the lower of the FCC benchmark rate or \$18.00 as of June 1, 2016, and to the lower of the
 18 FCC benchmark rate or \$20.00 on June 1, 2017.¹⁶

19 36. According to SCU’s schedules, in the test year, the Cooperative had an Arizona
 20 intrastate Fair Value Rate Base (“FVRB”) of \$980,729.¹⁷

21 37. In the test year as adjusted, SCU reported total Arizona intrastate operating revenues
 22 of \$487,289 (including FHCLS of \$62,500), and total intrastate operating expenses of \$487,289,
 23 resulting in operating income of \$8,809, a 0.9 percent rate of return on FVRB.¹⁸

24 ¹⁴ *Seventh Reconsideration Order* at ¶ 73.

25 ¹⁵ The FCC may revise the 2016 and 2017 floor rates based on new survey data. *Seventh Reconsideration Order* at ¶ 84.

26 ¹⁶ SCU’s Response to Procedural Order filed July 31, 2014. At the hearing, SCU was requesting to increase its local
 exchange rates to the announced FCC mandated floor of \$20.46 effective June 1, 2014. Tr. at 14 & 21.

27 ¹⁷ Ex A-1.

28 ¹⁸ SCU’s Supplemental Response filed on September 22, 2014. In the test year, SCU received FHCLS of \$13,255 based
 on its network configuration at the time as “host-remote” which only receives low USF support. Effective January 1,
 2014, SCU reconfigured its network as “subscriber loop” which receives high USF support. From 2014 forward, SCU
 projects annual FHCLS of \$62,500, and for purposes of this proceeding, the test year is adjusted to reflect the known and

38. According to SCU, if its current residential local exchange rate of \$14.00 is not increased to the FCC floor rate of \$16.00 by December 1, 2014, it would lose \$15,682 of FHCLS, resulting in an operating loss of \$6,873.¹⁹ Based on the adjusted test year, increasing SCU's local rates to \$16.00 would preserve its FHCLS, and increase its Arizona revenues by \$15,682, which would result in operating income of \$24,491, a 2.5 percent rate of return on FVRB.²⁰

39. According to SCU, based on the adjusted test year, if its residential local exchange rates are increased to \$18.00 as of June 1, 2016, its revenue would increase by \$31,364 over test year revenues (or \$15,682 over revenues if the local rates are increased to \$16.00 on December 1, 2014), it would preserve its FHCLS, and result in operating income of \$40,173, a 4.10 percent rate of return on FVRB.²¹

40. According to SCU, based on the adjusted test year, if its residential local exchange rates are increased to \$20.00 as of June 1, 2017, its Arizona revenues would increase \$47,046 over test year revenues (or \$15,682 over revenues if the local rates are increased to \$18.00 on June 1, 2016), it would retain its current FHCLS, and result in an operating income of \$55,855, a 5.70 percent rate of return on FVRB.²²

Staff Recommendations

41. Staff notes that because the Cooperative's filing was based on streamlined requirements to meet the FCC's deadline for federal USF funding, it does not include rate adjustments typical of a revenue requirement analysis.²³ Given the particular circumstances of this case, Staff accepted SCU's financial results as presented, and did not audit the numbers reported by the Cooperative.²⁴

42. Based on the FCC's *Seventh Reconsideration Order*, Staff recommends that SCU's residential local exchange rates be set at \$16.00 effective December 1, 2014; \$18.00 or the 2016 rate

measurable higher FHCLS revenues. In the test year, before adjusting for the higher FHCLS, SCU had an operating loss of \$53,691. See Ex A-1, and SCU's August 22, 2014 Response.

¹⁹ SCU's September 22, 2014 Supplemental Response.

²⁰ *Id.*

²¹ *Id.*

²² *Id.*

²³ Ex S-1 Staff Report at 4.

²⁴ *Id.* at 3, 4, and 5.

1 floor set by the FCC, whichever is lower, effective June 1, 2016; and \$20.00, or the 2017 rate floor
 2 set by the FCC, whichever is lower, on June 1, 2017.²⁵

3 43. In addition, Staff recommends that within 30 days of the effective date of this Order,
 4 the Cooperative should be required to notify its customers of the new rate floor of \$20.00 to be
 5 implemented in 2017 and of the preceding step increases and their effective dates.²⁶ Staff further
 6 recommends that the Cooperative file a full rate case under A.A.C. R14-2-103 for any future rate
 7 increase beyond the \$20.00 rate floor currently mandated for June 1, 2017.²⁷

8 44. At the time of the hearing, Staff argued that its then-recommended rate of \$19.00 as
 9 of June 1, 2014, was just, fair and reasonable, and necessary because:

10 (a) The increase is necessitated by the FCC's November 18, 2011 *USF/ICC Order*;

11 (b) The increase is necessary to preserve the entirety of the Federal USF funds that
 12 may flow to SCU pursuant to the FCC's rules;

13 (c) The increase will minimize/reduce the amount of future rate increases; and

14 (d) The increase will allow SCU to receive matching funds from the Federal USF.²⁸

15 45. Based on the revised schedules filed by SCU on August 22, 2014, Staff concludes that
 16 if residential local exchange rates are not increased to the FCC's phased-in benchmark rates, SCU
 17 would lose FHCLS of \$15,682 with each \$2.00 increase in the FCC's benchmark floor, which would
 18 cause SCU's rate of return to drop from slightly positive to negative.²⁹

19 46. Based on the FCC's directives, the relatively small impact the increase has on SCU's
 20 total revenues, the negative returns that would result from the loss of FHCLS, and that SCU would
 21 not be over-earning after the increase, Staff believes that increasing SCU's rates to the FCC's
 22 minimum benchmark floors between December 1, 2014 and June 1, 2017, results in fair and
 23 reasonable rates.³⁰

24 ²⁵ Staff's July 31, 2014 Response and Staff's August 29, 2014 Response.

25 ²⁶ Staff's July 31, 2014 Response and Staff's August 29, 2014 Response at 2.

26 ²⁷ Staff's July 31, 2014 Response.

27 ²⁸ Staff Report at 5-6; Tr. at 48-49.

28 ²⁹ Staff's August 29, 2014 Response. Based on the Cooperative's Supplemental Response filed on September 20, 2014, if it lost its FHCLS, it would have a negative rate of return of 0.70 percent as of December 1, 2014, a negative rate of return of 2.30 percent as of June 1, 2016, and a negative rate of return of 3.90 percent as of June 1, 2017.

³⁰ Staff's August 29, 2014 Response. See also Staff Report at 5 where Staff determined that at a rate floor of \$19.00 (the initial request) would provide additional annual revenue of \$87,360, which would increase the Cooperative's return on its

47. Staff states that its recommendation in these unique circumstances should not be viewed as precedent for the processing of future rate case applications.³¹

Conclusion

48. We concur with the parties that the March 2014 hearing on the Application anticipated and discussed a number of different scenarios that the FCC might take concerning its benchmark floor rate and considered rates that ranged between the current \$14.00 and \$20.46, and that with the parties' updated recommendations, there is no need to re-open the hearing in this matter in order to make an informed decision based on substantive evidence.

49. Under the particular circumstances of this proceeding, although we have considered FVRB, a rate of return analysis alone is not helpful in setting rates for SCU.

50. At the current \$14.00 local exchange rate, a typical basic residential phone bill is \$25.12 per month.³² If local residential rates are increased to \$16.00, the basic bill would increase by \$2.22 to \$27.34; if local rates were increased to \$18.00, the current typical basic residential bill would increase by \$4.42 to \$29.54; and if local rates are increased to \$20.00, the current typical basic residential bill would increase by \$6.62 to \$31.74.³³

51. Neither Staff nor the Cooperative submitted an analysis of the effect of losing FHCLS on SCU's operations. However, the record shows that the loss of FHCLS that would occur if SCU's residential rates are not increased to the national average as determined by the FCC, will cause the Cooperative to incur operating losses. According to the evidence presented, an increase in residential local rates up to \$20.00 will not result in SCU over-earning on its FVRB, and the phase-in schedule advocated in this case results in fair and reasonable rates.

52. We find that under the particular circumstances of this proceeding, including that the FCC is imposing the same requirements on all ILECs receiving FHCLS, SCU's rates for residential local exchange service should increase from the currently tariffed rate of \$14.00 to \$16.00 effective

FVRB from a negative to 1.0 percent. Staff opined that compared to the Cooperative's total revenues, any impact on revenues from such rate increase would be small and any impact on the return on SCU's FVRB would be *de minimus*.

³¹ Ex S-1 Staff Report at 6.

³² SCU's August 22, 2014 Response; includes taxes.

³³ *Id.*

December 1, 2014; increase to \$18.00, or the lower of the new FCC residential rate floor, effective June 1, 2016; and increase to the lower of \$20.00 or the FCC's rate floor on June 1, 2017.

53. The rates and phase-in schedule approved herein were requested by the Cooperative, and the Cooperative agrees that a phase-in of the increase to \$20.00 over a period of two and a half years, from December 1, 2014, to June 1, 2017, is fair and reasonable.

54. We find that it is reasonable to require the Cooperative to file revised tariffs showing the rates authorized herein. Additionally, we find that Staff's recommendations concerning providing notice of the rates approved herein and their effective dates to be reasonable. Thus, we will direct SCU to mail notice of the rate increases approved herein to its customers within thirty days of the effective date of this Order in a form approved by Staff. In addition, SCU shall re-notify its customers by mail of the rates to become effective June 1, 2016, and June 1, 2017, at least thirty days in advance of their implementation dates.

CONCLUSIONS OF LAW

1. SCU is a public service corporation within the meaning of Article 15 of the Arizona Constitution and A.R.S. §§40-250 and 40-251.

2. The Commission has jurisdiction over the Cooperative and over the subject matter of this proceeding.

3. The Cooperative provided notice of this proceeding in accordance with law.

4. SCU's Arizona FVRB is \$980,729.

5. Under the particular circumstances of this proceeding, in order to assure continued FHCLS for SCU's services, it is appropriate to increase SCU's rates for Arizona residential local exchange service from the currently tariffed rate of \$14.00 FCC residential local exchange rate floor of \$16.00; and thereafter, to increase SCU's rates for residential local exchange service effective June 1, 2016, to the lower of \$18.00 or the FCC's benchmark rate; and to increase SCU's rates for residential local service effective June 1, 2017, to the lower of \$20.00 or the FCC's benchmark rate.

6. The rates and charges authorized herein are just and reasonable and promote the public interest.

7. The Cooperative should file revised tariffs showing the rates authorized herein.

ORDER

IT IS THEREFORE ORDERED that South Central Utah Telephone Association, Inc. is authorized to increase its residential local exchange rates to \$16.00 effective for billings on or after December 1, 2014, the implementation date for the new local exchange service rate floor as established by the FCC.

IT IS FURTHER ORDERED that South Central Utah Telephone Association, Inc. is authorized to increase its residential local exchange rates to the lower of \$18.00 or the FCC's benchmark rate floor effective June 1, 2016, and to the lower of \$20.00 or the FCC's benchmark rate floor as of June 1, 2017.

IT IS FURTHER ORDERED that South Central Utah Telephone Association, Inc. shall, by October 31, 2014, file revised schedules of rates and charges consistent with the Findings of Fact and Conclusions of Law contained herein.

IT IS FURTHER ORDERED that South Central Utah Telephone Association, Inc. shall notify its affected customers of the rates approved herein and their implementation dates in a form approved by Staff either as an insert in its next regular bill, or as a separate mailing to be completed within thirty (30) days of the effective date of this Decision.

IT IS FURTHER ORDERED that South Central Utah Telephone Association, Inc. shall mail notice of the approved rate increases to its residential customers at least thirty days prior to the implementation of the new residential rates on June 1, 2016 and June 1, 2017.

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IT IS FURTHER ORDERED that any increases to South Central Utah Telephone Association, Inc.'s rates and charges beyond those approved herein shall be supported by a rate case filing pursuant to the requirements of A.A.C. R14-2-103.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____ 2014.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

JR:tv

1 SERVICE LIST FOR: SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION, INC.

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